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Shibley, George H.

Currency reform

[Mount Vernon, N.Y.]

[1900]

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Currency Reform

BY

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SHALL CONTROL THE PRICE LEVEL?" ETC.



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1900

THE VERNON PRESS OF THE DAILY ARGUS.
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Currency Reform.

I.

ATTITUDE OF THE REFORM PARTIES.

The regenerated Democracy at its national convention in 1896, declared that "Congress alone has the power to coin and issue money, and President Jackson declared that this power could not be delegated to corporations or individuals. We therefore denounce the issuance of notes intended to circulate as money by National Banks, as in derogation of the Constitution, and we demand that all paper which is made a legal tender for public and private debts, or which is receivable for duties to the United States, shall be issued by the government of the United States, and shall be redeemable in coin."

Practically the same declaration was made by the People's Party and the Silver Republican Party.

As to the proper volume of money, the Reform parties declared for an immediate increase in the volume through the free coinage of silver and gold at 16 to 1. *After this restoration, the average of prices was to be kept practically stable through controlling the volume of paper currency.* This stability in the price level is the principle of justice to which the reform parties are unalterably committed, and it is the ideal of all business men and economists.

That a stable price level can be attained is demonstrated by the European systems for controlling the price level. They are described in "The Arena" for January, 1900. The essential element for adoption by the United States is *the control of the volume of paper currency that is used in conjunction with the metallic*

money and bank credits, the aim being to maintain the greatest possible stability in the average price of products at wholesale. For the details see the following proposal for a law of Congress, also the "Arena" article referred to below.

II.

A PRACTICABLE PLAN OF CURRENCY REFORM.

AN ACT for the Retirement of Bank Money, the Direct Issuance and Withdrawal of Money, and the Establishment of a Stable Price Level.

Be it Enacted by the Senate and House of Representatives in Congress Assembled:

BANK NOTES RETIRED.

1. That the right of National

Banks to issue money, or bank-notes, so-called, is hereby withdrawn, and after July 1st, 1900, the legal tender quality of the money issued by the government through the banks is withdrawn, and it shall be retired under regulations to be issued by the secretary of the treasury. The government bonds deposited by the national banks with the treasury shall be returned, also the redemption fund, and section five thousand one hundred and fifty-nine of the Revised Statutes is hereby repealed.

NOTE AS TO LEGAL TENDER.—The National Banking law declares that the circulating notes issued in conformity with the law "shall be received at par in all parts of the United States in payment of taxes, excises, public lands and all other dues to the United States, except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and in redemption of the national currency."—(Section 5, 182, U. S. Revised Statutes.)

"Every national banking association formed or existing under this title shall take and receive at par, for any debt or liability to

it, any and all notes or bills issued by any lawfully organized national banking association. But this provision shall not apply to any association organized for the purpose of issuing notes payable in gold." (R. S. Sec. 5196.)

2. As rapidly as the bank money is retired, there shall be issued, under the direction of the Currency Commission hereinafter provided, an equal

amount of the non-interest bearing money provided for in this Act. It shall be placed in circulation by the purchase of interest bearing securities of the United States. These bonds as rapidly as purchased shall be transferred to the Commission on Education, and the annual income therefrom, and from the fund received in payment of said bonds,

INTEREST [about \$4,000,000 annually.]
SHALL BE DEVOTED TO THE FOLLOWING PURPOSES, AND TO NONE OTHER: namely, (1) The acquiring of information concerning the principles of Self-Government, their development and advantages; (2) The dissemination of this knowledge among the people of the United States; and (3) The development of the art of Self-Government in the public schools and by adults.

3. The money issued under the authority of this Act shall be received at its face value for debts, public and private, including import duties, judgments, taxes, and all payments and dues whatsoever, except where otherwise provided by an existing contract. Hereafter it shall be unlawful to contract for the future payment of any special form of money of the United States.

STABLE EX-
CHANGE VALUE
IN MONEY:
1. A USE.

2. The money issued under the authority of this Act shall be received at its face value for debts, public and private, including import duties, judgments, taxes, and all payments and dues whatsoever, except where otherwise provided by an existing contract. Hereafter it shall be unlawful to contract for the future payment of any special form of money of the United States.

2. *SHIFTING
QUANTITY OF
MONEY.*

when combined with the metallic money, be sufficient to maintain a stable price level, as hereinafter specified, and shall not exceed that amount.

*LIMITATION OF
QUANTITY.*

who shall attempt to imitate it, or possess counterfeits, or possess plates, dies, tools, paper, etc., especially designed for making imitations, or who shall pass counterfeits or other imitations, shall be that provided for like offences by sections 0,000 to 0,000 of the revised statutes and amendments thereto.

*CURRENCY
COMMISSION.*

6. There is hereby established a Currency Commission. The membership shall consist of the secretary of the treasury, the director of the mint, and five appointees of the Senate. The appointments shall be upon the following recommendations: One to be selected from three nominated by the executive body of the National Manufacturers' Association; one to be selected from three nominated by the executive bodies of the following associations: one each by the executive bodies of the National Farmers' Association, the National Grange, and the Patrons of Husbandry; one to be selected from two nominated by the executive body of the American Federation of Labor and one nominated by the executive body of the Knights of Labor; one to be selected from three nominated by the executive committee of the National Board of Trade; and one to be selected from three to be nominated by the executive body of the American Bankers' Association.

4. The quantity of paper money coined and put in circulation under the direction of the Currency Commission hereinafter provided, shall,

5. The punishment and procedure against those who may counterfeit or imitate the money herein authorized, or

ciation. In case of failure to nominate in the manner aforesaid, the nominations shall be by the Currency Commission. The term of office for the five associate commissioners other than the director of the mint, shall be five years, and removable for cause only. The term of one of the said five associates shall expire annually, and the decision as to the length of the term of the first five of said associates shall be decided by lot. The salary of each of said five associates shall be that which is now paid to the controller of the currency. The oath of office shall be that taken by the secretary of the treasury.

*BUREAU OF
THE CURRENCY.*

7. The said Currency Commission, with its employees and the property in its charge, shall be known as the Bureau of the Currency, or Currency Bureau, and shall constitute a Division of the Treasury Department. It may establish branches in each of the sub-treasuries. The existing Currency Bureau shall be known as the Bureau of National Banks or National Banking Bureau, and its chief officer and his deputy shall be known as the Comptroller of National Banks, and Deputy Comptroller of National Banks.

*DUTY OF
COMMISSION.*

8. It shall be the duty of the Commission to so control the supply of money in circulation in the United States and outside the treasury, as to maintain the greatest possible stability in the average price of products at wholesale, due allowance to be made for the cost of carrying the crops from harvest to harvest, short crops, large crops, etc. Each decision as to proper allowance to be reached after publicly taking the testimony of interested parties, and said testimony and decisions shall be promptly published and copies delivered at the depositories of public documents and to those who request the same.

MEASUREMENT OF PRICE LEVEL. 9. The average price or price level, shall be represented by an index number to be compiled and computed by the Bureau under the following rules: There shall be selected one hundred products, approximately. The price of each, for the thirty days preceding the date at which this law shall take effect, shall be ascertained and the average of each for the said thirty days shall be represented by 100. The subsequent changes in the price of each article shall be indicated by a proportionate change in its index number. The index number of the several products shall be combined to represent the average price or price level. For the month above stated this general index number shall be represented by 100. To ascertain the general index number for subsequent dates, the importance of each article shall be in proportion to the value of the amount annually consumed in the United States (as it existed in the year 1890), as compared with the total consumption of said 100 articles in said territory. In selecting the articles, care shall be taken to properly apportion those in which there is an increasing and a decreasing return. The wholesale prices shall be those in the primary markets of the United States. In each of the said markets the Commission shall appoint a citizen of United States to transmit as frequently as may be desired the prices of the selected articles, and he shall be sworn to do so to the best of his ability.

PROCEDURE. 10. The decision as to the articles to be incorporated in the index number, the grade to be selected, the primary markets, and the relative importance of each article, shall be arrived at by the Commission after it has publicly taken the testimony of specialists in the several lines and in several localities. Hearings by a quorum shall be had in New York City, Chicago, St. Louis and San Francisco, and

such other places as justice may require. The testimony and decisions shall be promptly published and copies placed in the depositories for public documents, and sent to the persons requesting the same.

DAILY DUTY. 11. After the Bureau is established, the prices of the several articles shall be compiled daily. The index number showing the average price shall be computed daily or weekly, and *the supply of money so controlled as to keep said index number at 100*, as provided in section eight.

METHOD OF EXPANDING AND CONTRACTING THE VOLUME OF MONEY. 12. The supply of money in circulation shall be increased by the purchase of United States bonds in the open market, said bonds to be held by the Commission for re-sale in the open market whenever the circulation is to be decreased. In case the decrease in the circulation is such that there are no retired bonds in the treasury of the Commission, it is hereby empowered to issue certificates of indebtedness payable in ten years or at the option of the Government, and drawing such a rate of interest that when publicly sold they shall net their face value or a small premium.

FOREIGN AND DOMESTIC NEWS. 13. For the purpose of supplying the Commission with information as to the factors which affect the supply of money and the demand for it, said Commission is authorized to receive in cipher knowledge of the aforesaid character, and pay for it, and immediately upon receipt of the same shall transcribe and post it on the bulletin board of the Bureau.

PARITY. 14. The Bureau of the Currency shall, upon demand, exchange money of large denominations for smaller ones, and vice, versa, and

may, at its option, exchange one form of money for another except as hereinafter stated. The parity of the several forms of money depends upon the use provided by the legal tender provision of the law and the proper limitation of the quantity.

15. The gold and silver coin and bullion now on deposit with the treasury shall be placed in the Bureau of the Currency, and it shall redeem and issue the gold certificates and silver certificates in conformity with the existing regulations.

16. The United States notes being payable in coin, on demand, shall be honored upon presentation. There shall be transferred to the Bureau 150 million dollars in coin and at all times the coin in the general treasury, or any portion of it, may be received by the Bureau upon tendering other forms of money. For payment of the interest upon the public debt the general treasury may receive coin from the Bureau in exchange for other forms of money. United States notes as received by the bureau shall be canceled and an equal amount of money provided for in this Act shall be coined.

17. (Under an elastic supply of money, such as provided above, the interest bearing securities that are first-class can always be turned into cash at an hour's notice. It follows that *the banks should not be required to keep as large a cash reserve as at present.* The law as to bank reserves should, then, be amended when the new currency system is enacted. The National Banks in the larger cities are now required to "at all times have on hand, in lawful money of the United States, an amount equal to at least 25 per centum of the aggregate amount of its

deposits." They should be allowed a minimum of, say, 5 per cent. in lawful money, and 5 per cent. in United States bonds. In the smaller cities the National Banks are required to have "at all times on hand, in lawful money of the United States, an amount equal to at least 15 per centum of the aggregate amount of its deposits." Three fifths of this 15 per centum can be kept in reserve cities, and the amount of lawful money on deposit with the treasury for the redemption of bank notes is also included in the 15 per centum. Instead of the foregoing percentage of cash on hand they should be allowed to keep a minimum of, say, 3 per cent. in lawful money, and 5 per cent. on deposit in the reserve cities. Unless the National Banks are granted as favorable conditions as can be obtained under State laws, they will change to State charters. The prestige of the name National Bank, and the safety to depositors on account of government inspection, is likely to continue the existence of the National banking system after the provisions for issuing bank money are repealed, provided the unnecessary restrictions are removed.)

In the plan proposed in the above bill there will be a practically stable price level, for the volume of money is controlled with the direct object of maintaining stability in the index number, and the officers of the government have no discretion in the matter—no more discretion than has the fireman who is commanded to keep steam at 100.

Now let us examine other plans for maintaining a stable price level.

VARIOUS PLANS COMPARED.

MEASUREMENT OF PRICE LEVEL.

To begin with, it should be admitted by everyone in the reform party that the price level should be measured by a commission on which is represented all

the conflicting interests. A plan which does not provide for a measurement of the price level is deficient in one of the most important features. It is practicable to measure the price level, and therefore the plan must include an index number.

As to the methods of controlling the volume of currency, one plan is that of an inter-convertible bond *at a fixed rate of interest*, while another plan is the inter-convertible bond *with the rate of interest on money shifted as often as is necessary to maintain a stable price level*. This latter is a practicable measure, and should be used in connection with the system provided in the above bill, whereas a fixed rate is thoroughly impracticable, and for the following reason:

INTER-CONVERTIBLE BONDS AT FIXED RATE OF INTEREST.

In Germany, Austria, Japan, and possibly other countries, there is a law whereby the administrative officers of the government are authorized to issue a temporary volume of paper currency upon the payment of interest at the rate of 5 per centum per annum, and the deposit of securities. But these public officers *are not obliged to issue it upon demand*. If they were so obliged it would result in a paper money inflation and the export of all their gold money. This is demonstrated by the fact that the bank rate in Germany has recently been 6 per cent., and it follows that if the amount of new money for circulation had been practically unlimited at 5 per cent., then the interest rate on money could not have risen to 6 per cent. If the volume of paper money had been unlimited at 5 per cent., it would have been issued in such quantities as to keep prices from falling, to say the least, and with stable prices in Germany while prices were falling in other countries, it would have resulted in an export of gold from Germany and the issuance of more paper money at 5 per cent., and this would have continued until all the gold should have been driven

from the country, and even then the outpour of money would not have ceased until all the bonds were changed into money, or the law was so changed as to stop the issuance of new money.

It is manifest then that an inter-convertible bond system at 5 per cent., or at 4, or at 3 per cent., is impracticable. If the rate is fixed at 10 per cent., say, then it would furnish a temporary increase in times of stress, and the added volume would soon be withdrawn: a 10 per cent. bank rate will force down the price level unless it shall be found that a strong clique of bull speculators can so manipulate the volume of new money as to raise prices.

We find then that a fixed rate of interest on an interconvertible bond is *impracticable except to prevent a panic for money*. Let us see the workings of an adjustable interest rate:

INTER-CONVERTIBLE BONDS AT ADJUSTABLE RATE.

As shown in my "Arena" article of January, the Government of Germany controls the interest rate on *money*—it controls the bank rate. By raising the rate it depresses prices, and by lowering the rate it raises prices. It also puts new money into circulation when there is an extra strong demand for money, as at the first of the month. This additional amount is gradually withdrawn and held in readiness to be put forth again. By reason of this elastic supply of money the bank rate is not changed as often as is the case in England where there is less elasticity in the volume of money.

The plan proposed for this country by several of our monetary writers is that the elasticity in the volume of our paper currency be secured by means of inter-convertible bonds, the interest rates to be *raised and lowered by the currency bureau in such a way as to maintain a stable price level*.

This is what should be done under the system provided in the above bill. Bonds should be bought in the open market whenever the interest rate in the money market rises to a given figure, and bonds sold whenever the rate falls to a given figure. These rates should be publicly announced from time to time, but it is not likely that there will be many changes after the new system is in working order. To prevent a "corner" on the bonds that the government will purchase, the bureau of the currency should be authorized to select from quite a range.

But some there are who urge that instead of buying the bonds the government should *loan money and take the bonds as security for the repayment of the money*. To this there are several objections:

OBJECTIONS TO GOVERNMENT LOANING MONEY ON BONDS.

In the first place it is likely that practically all the new money put out will be kept out in circulation and therefore *will not be repaid*. This is because the country, as it develops, will need a larger and larger supply of money, and when a stable price level shall be established there will be a rapid enlargement of business. In short, it is reasonable to expect that the volume of paper currency will increase and will be kept in circulation *permanently*. If such is the case it is impracticable to place it out on loans to individuals and private corporations. The small expansion and contraction due to moving the crops will be but a "fringe" on the edge of the total volume of paper currency. The expansion and contraction of this "fringe" can be through the buying and selling of bonds.

On the other hand, if the volume of government currency is not increased year after year, but the supply of metallic money shall be such that *the currency now out shall be withdrawn*, then it will be

necessary to sell government bonds—the loaning-out system will not meet this contingency.

Now is an opportune time to discuss the control of the price level. The attention of the public is directed to some of the evils of the existing system. The discretionary power of the Secretary of the Treasury to expand or contract the volume of money is seen by all to be very bad. The remedy is to provide the fixed rule that the volume of money shall be such as shall maintain the greatest possible stability in the index number of average prices. If the discretionary power of the Secretary of the Treasury is abolished without substituting a control by him or a commission under fixed rules, *then it places the control of the price level in the hands of those who control the bank rate*; that is to say, the great speculative banks and the bear speculators, and also foreign governments and foreign bankers. This I have demonstrated in "Who Shall Control the Price Level?" published in the "Arena" for January.

III.

PROPOSED CURRENCY PLANK OF 1900.

Re-affirm the currency plank of 1896: "Congress alone has the power to coin and issue money, and President Jackson declared that this power could not be delegated to corporations or individuals. We therefore denounce the issuance of notes intended to circulate as money by National banks as in derogation of the Constitution, and we demand that all paper which is made a legal tender for public and private debts, or which is receivable for duties to the United

States, shall be issued by the Government of the United States, and shall be redeemable in coin."

Then add the following paragraphs:

The volume of this paper currency used in conjunction with coin, should be such as to offset the changes in the volume of credits, rapidity of circulation, fluctuations in demand, etc. The issuance and withdrawal of the currency should be under fixed rules of justice laid down by Congress, thereby taking all discretionary power from the administrative portion of the government. (The following may be added or omitted:) To further insure impartiality and sound judgment the administrative body should be composed of representatives of the business men, farmers, wage earners, and bankers, also the Secretary of the Treasury and the Director of the Mint.)

The present system of paper currency issued by the government through the private corporations known as National banks, is wholly in the interests of the great speculative banks, "bear" speculators, foreign bankers, and foreign governments. They each have power to control the price level, whereas in all first-class countries except the United States, the price level is controlled by the government officials, as in Germany, Austria and Russia; or by representatives of the producing classes, as in England; or by a combination of government officials and representatives of the producing classes, as in France.

Suggestions and criticism are invited.

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